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TODAY

TECHNOLOGY NEWS

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Nobody understands a policeman better than another policeman, and nobody understands a banker like another banker.

Isabel Montoya, Security Pacific senior specialist and peer support volunteer [Page 24]

Unquote

An American Banker Special Report

Shaky Real Estate Loans Hitting Banks

Kroh Brothers Inc. of Kansas City was the kind of company that bankers dream of bankrolling.

The 77-year-old firm, which is family-owned and operated, chalked up spectacular successes in the real estate market, first with residential construction and later with commercial development. Limited partnerships, providing new avenues of financing, became a favorite vehicle for the Kroh brothers, John and George.

This story was reported by Nina Easton in Los Angeles, David LaGesse in Dallas, Richard Ringer in Chicago, Paul Tosto in Washington, D.C., and Michael Weinstein in Boston.

Then came trouble — overbuilt markets, weak cash flow, and tax law changes that rendered real estate partnerships useless as tax shelters. With 120 properties stretched across 13 states and $700 million in debts, Kroh Brothers filed for bankruptcy the day before Valentine's Day.

Commercial Real Estate Lenders

Banks with Largest Percentage Of Commercial Real Estate Loans

RepublicBank Dallas NA	39.23%
MBank Dallas NA	32.73%
Arizona Bank, Phoenix	32.43%
Florida National Bank, Jacksonville	31.98%
Barnett Bank of South Florida NA, Miami	31.92%

Two months later, three St. Louis bank holding companies paid dearly for their infatuation with Kroh Brothers. In the first quarter of 1987, Mercantile Bancorp. charged off $7.1 million in loans to Kroh Brothers; Boatmen's Bancshares Inc. had a $4.1 million increase in its loan-loss provision, mostly because of charged-off loans to the company; and Centerre Bancorp. charged off about $2.5 million in Kroh Brothers loans.

Those Missouri banking concerns are in good company. Overbuilt markets and tax changes are colliding to make 1987 a painful year for banks with sizable exposure to the commercial real estate market. Yesterday's favorite cus-

Real Estate: Page 10 ➳

Banks Win Japan Securities Nod

By JED HOROWITZ

NEW YORK — Four major U.S. banks have allied themselves with nonbanking partners to bring their bid for securities units in Japan to fruition.

Japan's Ministry of Finance on Wednesday said it invited 10 foreign institutions to apply to open brokerage firms. Under Japanese regulations, the banks cannot control more than 50% of a securities company, and they must purchase it through an existing unit.

Bankers Trust New York Corp., Chemical New York Corp., Manufacturers Hanover Corp., and J.P. Morgan & Co. said they will quickly send in applications, which they have been negotiating for more than a year.

They will be the first U.S. banks to directly apply for securities firms in Japan, though others are operating there through the purchase of existing brokerage houses.

To meet the 50% ownership stipulation, each applicant has taken a nonbanking partner. Bankers Trust has joined with Exxon Corp., Morgan with Bechtel Investments, Inc., Chemical with Lord Howard de Walden, a private British investor, and Manufacturers Hanover with Chrysler Corp.

The banks said they will underwrite, distribute, trade, and broker debt and equity securities through their planned units. To meet regulatory requirements for licenses in each of these areas, the firms will have to be capitalized at 3 billion yen, or about $21 million, according to Douglas Ebert, an executive vice president at Manufacturers Hanover.

The banks, limited in U.S. securities activities by the Glass-Steagall Act, have been flexing their muscle for several years in the Euromarkets as underwriters and traders.

An invitation from the Ministry of Finance to apply for securities firms is tantamount to approval, banking officials said. Unlike the United States, where an application presages a review process, Japan's finance ministry issues

Japan: Page 23 ➳

Barclays Bets On Debit Card

By JOHN J. DUFFY
London Bureau

LONDON — Barclays Bank PLC on Wednesday launched Britain's first mass-market debit card, the vanguard for a new generation of cards that are expected to replace checks and pave the way for electronic, cashless shopping.

Called Connect, the new card is being issued through the Visa system. Most of the 5.3 million Visa merchants worldwide are expected to accept it.

Unlike purchases made with a charge card or a Visa credit card, Connect card transactions will be debited directly from the holder's checking accounts, with most transactions clearing in about three days.

"Barclays' Connect is the first of a new generation of banking services and is set to revolutionize purchasing hab-

Barclays: Page 23 ➳

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An American Banker Special Report

Real Estate Loans Rocking Lenders' Bottom Lines

➳ **Continued from Page 1**

tomer, like Kroh Brothers, in too many cases has become today's source of losses.

Among large American banks that have concentrated more than 20% of their loans in land and development, about half saw their bad real estate loans at least double in 1986, according to a ranking prepared for the *American Banker.*

That trend has focused concern on real estate among bankers and their regulators, most of whom say they expect the losses to continue growing this year.

While holding companies are taking dramatic hits from soured Third World loans, those problems are at least quantifed, unlike the final exposure of banks to a real estate recession.

Real estate apparently has not hit bottom in a number of markets, particularly in the Southwest, where many regulators and analysts fear that the losses could threaten the survival of many banks.

Analysts expect real estate to wipe out any chance for earnings this year among the Texas holding companies, and to weaken profits at banks around the country.

High on the list of problems, bankers say, are construction loans for office buildings, hotels, apartments, and shopping centers. "The banking industry remains highly exposed to conditions in the real estate market," Manuel H. Johnson, vice chairman of the Federal Reserve Board, told Congress last month. Mr. Johnson said that while new construction has slowed in energy-depressed markets, "it has not done so in the aggregate."

In 1986, Mr. Johnson said, real estate construction loans held by banks grew by nearly 20%, while total loans grew by less than 8%. Over the past three years, construction loan growth averaged 21%, compared with a total loan growth average of 10%.

Comptroller of the Currency Robert L. Clarke said he expects troubled commercial real estate loans to be one of the factors behind lower bank earnings this year. "The number of nonperforming assets is high and it's going to get higher," he said in an interview this week.

The Comptroller's office is considering forbearance plans to provide relief to banks with large portfolios of these loans, Mr. Clarke said. One option under consideration is a change in appraisal standards that would assess the value of a real estate project based on the anticipation of stronger markets in the future.

"I personally think the problem will be a big one," Harry W. Green, vice president for bank holding company and international regulation at the Federal Reserve Bank of San Francisco, said in a recent interview.

While others are more sanguine about commercial real estate loans, there appears to be a growing consensus that the problem will get worse before it gets better.

"I think it's a while before we hit bottom," said Robert Grossman, a bank analyst at Standard & Poor's Corp., a bond-rating agency.

Alex Sheshunoff, president of Sheshunoff & Co., stated in a recent report on bank performance that the major problems for many U.S. banks in the future will continue to be in the real estate sector. "It is difficult," Mr. Sheshunoff wrote, "for many banks to quantify their problems in this area, due to the significant drop in real estate values."

"A lot of banks have been and will continue taking big writedowns," said John W. Hancock, executive vice president and head of Security Pacific Corp.'s real estate industries group in Los Angeles. Added Thomas Tabasz, chief economist for First Interstate Bank of Washington: "There is cause for concern."

Warning signs were evident throughout the country as major banks reported their earnings for 1986 and the first quarter of 1987:

• In Texas, real estate chargeoffs doubled as a share of total loan chargeoffs in 1986 — to 25% for the overall year, and 29% of fourth-quarter chargeoffs.

• In New York, Manufacturers Hanover Trust Co. earlier this year foreclosed on the Allied Tower in Dallas, only half of which is occupied. The bank's nonperforming real estate loans had already jumped from 2.93% of total construction loans at yearend 1985 to nearly 10% at yearend 1986.

• In Pittsburgh, Mellon Bank Corp. charged off $20 million in the first quarter, contributing to a $60 million loss in that quarter. Analysts at Smith Barney, Harris Upham & Co. cited the bank's real estate construction and commercial loan portfolios as "our biggest concern," and predicted more problems to come.

• In San Francisco, Wells Fargo Mortgage & Equity Trust, a real estate lender and investor that is advised by, but not formally affiliated with, Wells Fargo & Co., received a downgraded credit rating from Standard & Poor's in May. The credit agency said it did not expect the trust's poor performance to improve "unless [it] finds several large tenants for its problem properties."

Widespread Trouble

The commercial real estate market is particularly troubled in the Southwest, where the effects of the depressed oil and energy industries are now trickling down to the real estate sector. Nonperforming real estate loans among Texas banks more than doubled in 1986 to nearly 12%, and could nearly double again in 1987 to 20% or more, said Sandra J. Flannigan, a bank analyst with PaineWebber Inc. in Houston.

Some sectors of the country appear to be virtually immune to commercial real estate woes. New York, Boston, and Washington, D.C., remain robust markets, although some banks may pay for straying into the Southwest with real estate loans, as Manufacturers Hanover did in Dallas. "The whole Northeast corridor is much stronger than the rest of the country," said James F. Murray, senior vice president at Chase Manhattan Bank.

But regulators are keyed on problems in regions far from the oil patch. Overbuilding is evident in San Francisco, Seattle, Oregon, Miami, Los Angeles, and Phoenix. And banks throughout the Sun Belt have large exposures to the commercial real estate market.

Unlike energy loans, which severely crippled banks in the Southwest but touched only isolated banks elsewhere, real estate problems will affect banks throughout the country, Mr. Green said. Nearly a third of the $775.7 billion in outstanding loans at large banks — $220.4 billion — was linked to real estate projects, according to April figures published by the Fed.

Federal Deposit Insurance Corp. data show that the nation's total banking system at the end of 1986 contained $13.8 billion in problem real estate loans, representing 2.7% of total real estate loans, an increase from 2.5% in 1985. However, that figure does not reflect the true size of the problem, because total real estate loans include the residential sector, which has remained robust in most parts of the country.

Unlucky Timing

An unlucky confluence of events makes 1987 a harrowing year for banks with commercial real estate loans on their books. As one West Coast banker succinctly put it, "It's a deadly combination of overbuilding and tax reform."

After 1982, when the nation's economy showed signs of healing from recession, banks plunged into commercial real estate lending. And often they did not stay close to home. "It used to be that local bankers lent money to local developers, and both knew the market well," said Mr. Grossman. "In the past few years, we've seen a dramatic rise in national developers and syndicators, and national real estate lenders."

Commercial real estate lending in the early 1980s provided banks with lending opportunities at a time when troubles in the oil patch were drying up safe energy lending opportunities, noted a senior Washington bank

Real Estate: Page 11 ➳

Commercial Real Estate Lending at Big Banks

Banks with Over $4 Billion in Assets and More than 20% of Domestic Loans in Commercial Real Estate

Rank		COMMERCIAL REAL ESTATE LOANS Outstanding ($ Thous.) 12/31/86	12/31/85	% of Total Loans 12/31/86	12/31/85	% of Real Estate Loans 12/31/86	12/31/85	BAD REAL ESTATE LOANS Outstanding ($ Thous.) 12/31/86	12/31/85	% of Total Bad Loans 12/31/86	12/31/85
1	**RepublicBank Dallas NA**	3,358,973	2,968,788	**39.23**	33.14	95.03	93.49	233,221	78,991	50.54	36.87
2	**MBank Dallas NA**	1,853,372	1,664,791	**32.73**	31.11	89.23	92.37	132,953	39,645	39.57	19.50
3	**Arizona Bank, Phoenix**	1,042,972	797,549	**32.43**	29.45	65.01	59.13	50,482	9,112	72.59	331.47
4	**Florida National Bank, Jacksonville**	1,422,608	1,177,237	**31.98**	30.29	80.91	78.87	82,257	67,510	64.56	128.90
5	**Barnett Bank of South Florida NA, Miami**	986,968	637,726	**31.92**	26.27	68.22	67.73	19,434	18,909	63.01	73.08
6	**Riggs National Bank, Washington, D.C.**	722,895	532,826	**31.82**	28.19	76.24	72.17	12,527	2,955	92.35	139.26
7	**First Florida Bank NA, Tampa**	885,158	722,140	**31.35**	28.04	58.82	55.67	14,433	15,102	68.58	69.40
8	**MBank Houston NA**	889,490	786,886	**31.25**	28.61	82.35	83.14	76,762	26,064	38.30	33.81
9	**First City National Bank, Houston**	1,240,655	1,238,300	**30.53**	25.66	92.37	95.61	151,551	56,402	30.66	18.97
10	**American Security Bank NA, Washington, D.C.**	795,262	554,649	**29.01**	25.83	85.48	83.18	6,732	13,609	43.65	21.66
11	**Allied Bank of Texas, Houston**	747,223	760,170	**28.59**	26.55	89.35	97.09	53,099	25,535	28.55	17.55
12	**Union Bank, Los Angeles**	1,888,376	1,572,043	**27.79**	27.61	84.54	84.73	81,848	38,780	37.69	28.50
13	**Central Fidelity Bank, Richmond**	659,827	463,149	**27.43**	21.59	64.91	54.27	9,123	6,356	24.69	26.74
14	**Valley National Bank of Arizona, Phoenix**	1,847,732	1,575,588	**26.28**	24.52	66.21	62.29	122,234	104,473	58.81	76.19
15	**First Union National Bank of Florida, Jacksonville**	793,629	669,377	**26.15**	22.51	64.37	57.53	30,379	13,241	68.96	127.71
16	**InterFirst Bank Dallas NA**	1,224,996	1,367,246	**25.15**	22.71	83.87	86.57	56,159	26,624	15.20	10.67
17	**Midlantic National Bank, Newark, N.J.**	833,386	504,566	**24.70**	21.30	80.91	79.15	9,797	11,204	30.13	30.31
18	**Southeast Bank NA, Miami**	1,733,716	1,574,883	**24.65**	23.56	65.78	64.31	60,227	50,201	53.11	55.46
19	**Sanwa Bank California, San Francisco**	845,797	609,015	**23.98**	20.68	80.98	73.33	28,772	32,780	23.06	137.87
20	**Seattle-First National Bank**	1,694,854	1,307,859	**23.06**	18.08	62.62	60.06	132,054	65,753	38.46	20.24
21	**Citibank NA, New York**	9,520,000	7,016,000	**22.54**	23.14	62.38	58.18	350,000	126,000	35.46	31.82
22	**NCNB National Bank of North Carolina, Charlotte**	1,799,806	1,300,792	**21.88**	18.14	75.24	76.16	18,711	4,397	17.41	6.70
23	**United States National Bank, Portland, Ore.**	1,068,704	842,911	**21.53**	17.54	71.38	66.06	35,311	40,441	35.54	43.10
24	**Boatmen's National Bank, St. Louis**	464,133	343,368	**21.24**	16.93	55.18	47.71	4,951	4,925	14.92	57.13
25	**Fleet National Bank, Providence, R.I.**	874,353	661,699	**20.74**	20.29	55.46	70.86	12,782	5,108	25.34	12.36
26	**Chase Manhattan Bank NA, New York**	4,450,165	2,988,615	**20.62**	16.35	69.28	66.66	230,993	165,176	34.34	31.43
27	**Citizens & Southern National Bank, Atlanta**	1,339,925	1,028,487	**20.36**	17.74	64.34	61.92	26,110	20,184	46.19	77.97

American Banker surveyed all banks with total assets greater than $4 billion on 12/31/86. From this group of 106 banks, all banks with 20% or more of their domestically booked loans in commercial real estate are listed. The banks are ranked by the ratio of commercial real estate loans outstanding on Dec. 31, 1986, to all domestic loans outstanding on Dec. 31, 1986, expressed as a percent to two decimal places. This ratio is reported in column 3 above and shown in bold face. Data are from the Federal regulatory report of condition and were provided by ADP Data Service Division, New York. Commercial Real Estate Loans are the sum of the following three items from Schedule RC-C (Loans and Lease Financing Receivables), Column B (Domestic Offices), item 1 (Loans secured by real estate): (1) Construction and land development loans (item 1a); (2) Loans secured by multifamily (5 or more) residential properties (item 1d); and (3) Loans secured by nonfarm nonresidential properties (item 1e). Total Loans are all loans booked domestically, net of unearned discount (Schedule RC-C, Column B, item 12). Real Estate Loans are all real estate loans: commercial, plus loans secured by farmland (Schedule RC-C, Column B, item 1b) plus loans secured by 1-4 family residential properties (Schedule RC-C, Column B, item 1c). **Commercial real estate lending as a percentage of real estate loans** is commercial real estate loans divided by (all) real estate loans, expressed as a percentage. **Bad Real Estate Loans** are the sum of the following two items: All real estate loans 90 or more days past due (Schedule RC-N item 1a, Column B) plus All real estate loans on a nonaccrual basis (Schedule RC-N item 1a, Column C). **Bad Domestic Loans** are all domestically-booked loans 90 or more days past due plus all domestically-booked loans on a nonaccrual basis. **Bad real estate loans as a percentage of total bad loans** as of Dec. 31, 1986, and Dec. 31, 1985, are reported in the last two columns of the listing above.

An American Banker Special Report

Shaky Real Estate Market Rocking Banks with Big Loan Losses

Continued from Page 10

regulator.

The historically high vacancy rates in office buildings that now bedevil real estate lenders have become a familiar refrain: 30% in Denver, 25% in New Orleans, 23% in Miami, 20% in Houston and St. Louis, and 15% in downtown Los Angeles and Seattle. Take away the tax incentives of some of those projects, and the troubles deepen. That is exactly what Congress did in adopting the Tax Reform Act of 1986.

"The change in tax laws will have wide ramifications on bank portfolios," predicted the Fed's Mr. Green.

Most banks' loans to developers consist of two- to three-year financing. To service that debt, the developer needs a source of long-term financing. In the past, important sources of long-term financing were syndications of investors who bought real estate projects as tax shelters. But Congress killed those shelters in the 1986 tax reform law.

That factor, combined with growing vacancy rates, means that "there are now more restricted sources of repayment for a construction loan," said Mr. Hancock. Savings and loans, which have been granted more liberal powers to invest in, as well as lend to, commercial real estate projects, will be hit especially hard by the tax changes.

"It's worse than what we had thought," complains William Popejoy, chief executive officer of the troubled Financial Corporation of America. "Commercial real estate has been very badly hurt by the tax legislation."

While most bankers appear to believe that Congress' crackdown on real estate tax shelters last year will ultimately benefit the economy, they already are feeling the expected short-term drag on real estate values. "We've probably seen an erosion in value overall," perhaps by as much as 15%, said Dale Walker, executive vice president for real estate industries at Wells Fargo & Co. in San Francisco.

Ralph M. Carestio, executive vice president at NCNB Mortgage Co., a subsidiary of NCNB Corp., Charlotte, N.C., said that not all properties are losing value. However, he said there is still a large segment of commercial parcels whose value is optimistically estimated to be falling by 15%. "In the near term, it is not a time to be swinging, not a time to take chances," he said.

Andrew Arnold, an assistant vice president at Florida National Bank in Jacksonville, said the new changes in the tax law could diminish current market values on some properties by as much as 20%. "I consider this tax act to be one of the biggest travesties Congress has perpetrated on the public," said Mr. Arnold. Congress changed the rules of commercial real estate investment in mid-game, he complained.

A Bright Side

There is a bright side to all this. Historically, the losses associated with loans backed by real estate have been lower than with other types of loans. Bankers can hold on to buildings or land and sell them when the market rebounds, an option that provides a cushion from excessive chargeoffs that could threaten a bank's capital.

"I don't think we will see as dramatic a following in writeoffs in real estate as we did, say, in energy," said James McDermott, a bank analyst with Keefe, Bruyette & Woods Inc., New York. "I don't think it's going to result in unmanageable levels of writeoffs."

Moreover, regulators say they may allow capital to fall below usual levels for lenders with large portfolios of real estate loans, the sort of forbearance program they held out last year to agriculture and energy lenders.

The other good news is that while tax-driven partnerships are leaving the market, there are signs that institutional investors are returning to the market to provide long-term financing. Mr. Carestio of NCNB said he has noticed a return to the commercial real estate market by some institutional investors, mostly insurance companies. That trend increases the odds that banks will get their loans back on commercial projects.

Mr. Carestio said institutional investors a few years ago began leaving the commercial real estate market and turning to the equity markets because the returns were better. Now, a combination of lower interest rates and tax law changes has put the returns for "permanent" lending on a par with equities, several bankers say.

Standards Tightened

Are lenders responsible, at least in part, for the overbuilt real estate markets? Erik N. Prenzler thinks so.

Real Estate: Page 12

Furr Elected President Of Foreign Trade Group

WASHINGTON — Anthony F. Furr, executive vice president of First Wachovia Corporate Services, the Atlanta-based corporate banking subsidiary of the First Wachovia Corp., has been elected president of the Bankers' Association for Foreign Trade for 1987-88.

In his position at First Wachovia Corporate Services, Mr. Furr heads the international corporate division, which is responsible for all markets outside of the United States and Canada and for providing international services to domestic clients of First Wachovia and its subsidiary banks. He is also an executive vice president of the Wachovia Bank & Trust Co., Winston-Salem, one of First Wachovia's two principal units.

Mr. Furr succeeds William R. Rhodes as the new president of the Bankers' Association for Foreign Trade. Mr. Rhodes is the chairman of the restructuring committee of Citibank, New York.

Elected vice president of the foreign trade association was John J. Simone, executive vice president in charge of the international corporate and government division 1 at Manufacturers Hanover Trust Co., New York.

Thomas Dowen Jr. was reelected secretary-treasurer of the group. Mr. Dowen is senior vice president of the Continental Illinois National Bank & Trust Co., Chicago. ■

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The Electronic Banking Group

An American Banker Special Report

Real Estate Loans Hitting Banks Hard

Continued from Page 11

Mr. Prenzler, a loan officer with Focus Real Estate Finance Company of Colorado Inc., believes that lenders and developers chased marginal deals in order to generate fees.

"Lenders compromised their standards for location, market, and credit because they needed to place funds," Mr. Prenzler wrote recently in a periodical published by his firm's parent company, Focus Financial Group Inc. "Syndication firms looked at maximum tax writeoffs and ignored market demand. The realities of the marketplace were sometimes ignored."

That may be changing. Most of the bankers interviewed for this report said they had tightened their underwriting standards in recent years, requiring more personal guarantees and proof of income, and were shying away from overbuilt markets. "We've deemphasized new project lending in energy-impacted geographic areas," said Mr. Hancock of Security Pacific. "We're looking very strongly at the underlying credit — seeking larger equity, less leverage, more personal obligations."

Banks have become much tougher in evaluating office building projects. For a major project, such as 300,000 to 400,000 square feet, banks now require preleasing. "Banks are taking a tougher look at these things," said Chase's Mr. Murray.

"We are becoming very cautious in the transactions we are going into," said Adolfo Henriques, regional senior vice president for Barnett Bank of South Florida. "There will always be a large number of deals around, but only a few bankable ones." The number of good commercial real estate deals, he said, is shrinking.

But banks that lend to markets in the oil patch may find it fruitless to demand more equity and personal guarantees from developers. "They're going to be finding out that the developers themselves have little or no money left," said Craig Hall, a Dallas-based real estate syndicator who last year reworked more than a $1 billion in loans with savings and loans. ■

New England Commercial Real Estate Loans

As a Percentage of Total Loans at Large Banking Companies
(Including Construction Loans and Commercial Mortgages)

	Assets ($Bil.) 12/31/86	12/31/86	12/31/85	12/31/84
Bank of Boston Corp.[1]	$34.0	17.6%	15.7%	11.4%
Bank of New England Corp.	22.5	20.7	15.9	14.3
Hartford National Corp.[2]	13.9	23.2	15.1	12.7
Fleet Financial Group Inc.	11.7	9.2	9.3	12.7
Shawmut Corp.(3)	10.7	5.0	4.6	4.2
BayBanks Inc.	7.6	18.1	15.5	13.5
State Street Boston Corp.	7.2	13.5	11.8	9.6

[1]Percentages for 1986 and 1985 include loan portfolios of Hospital Trust National Bank, Providence, R.I., and Colonial Bank, Waterbury, Conn. [2]Percentage for 1986 includes loan portfolios of six financial institutions acquired in 1986. [3]Only construction loans. **Source:** Bank data, annual reports and 10-K reports.

New England Banks Finance A Healthy Real Estate Market

By MICHAEL WEINSTEIN
New England Bureau

BOSTON — To even a casual observer, the sounds of this city are the roar of jackhammers, the rumbling of dump trucks, and the slop of wet concrete.

Construction here in the hub of New England is ubiquitous, fueled by the nation's most prosperous regional economy. And the construction boom has generated strong demand for bank credit.

Over the last few years, commercial real estate loans have grown faster than other kinds of loans at major New England banking companies. And unlike other parts of the country, the forces of supply and demand have ensured a healthy real estate market.

Although some industry observers worry that problems will crop up if the regional economy runs out of steam, commercial real estate in New England has been an attractive market for lenders. The sheer volume of building, spurred by economic growth and recovery from the depressed years of the early and mid-1970s, has ensured strong demand for credit.

"There was a lot of catch-up to be done," said Edwin B. Morris 3rd, who heads up real estate lending at Bank of Boston Corp.

At Hartford National Corp., commercial real estate loans at yearend 1986 were 23.2% of total loans compared to 12.7% two years earlier. And at Bank of New England Corp. these loans were 20.7% of total loans at the end of last year compared to 14.3% two years earlier.

Meanwhile, local zoning laws and Yankee prudence have kept a lid on the supply of office space.

"You have strict zoning in New England," said Gary D. Smith, president of Fleet Real Estate Inc., Providence, R.I. "Ordinances are strict. Town councils are strict. The political machine is strict."

And bankers said that New England builders have been relatively cautious.

"The builders [around] Boston are not going hog-wild like they did in Houston," Mr. Smith said. "The New England marketplace, I think, is a sensible market."

The office vacancy rate in downtown Boston is running about 8%, compared to the national average of 13.5% reported by Cushman & Wakefield Inc., a New York City real estate concern.

Softness in the Suburbs

There is, however, some softness in the office market in certain suburban areas, such as the region between state Highway 128 and Interstate 495 west of Boston.

"You drive along 495, you see empty building after empty building," said James E. Moynihan Jr., senior vice president at Moseley Securities Corp. in Boston.

Some lenders are relying on the region's economic vitality to cure any ills. "We've just had such a terrific market, it's hard to make mistakes," said Leo T. Spang, senior vice president at Provident Institution for Savings, a Boston-based subsidiary of Hartford National Corp.

But in its success, the New England economy may be sowing the seeds of its own decline. Some industry observers worry that problems could crop up in real estate.

"I'm concerned about it," Mr. Moynihan said. "My concern is we've had enormous inflation in real estate values. If there's a slight hiccup up here, there could be severe repercussions."

Rising real estate values have made homes around Boston among the most expensive in the nation, making the region's cost of living too high for many moderate-income people. A labor shortage is hampering growth in parts of New England, according to economists.

"We have a lot of new space coming on percentage-wise," said Oscar Wasserman, senior vice president at First Mutual of Boston, a thrift active in commercial real estate lending. "That space, to be filled, needs people, and it needs people at an affordable cost. We don't have secretaries to fill that space."

Demand for Inexpensive Condos

High housing costs have created intense demand for inexpensive condominiums. "This is a terribly tight market for housing up to about $125,000," said Dick Pollard, vice chairman at BayBanks Inc., Boston, which concentrates on financing condo projects.

There is also strong demand for luxury housing. But industry observers have detected softness in the medium-priced condominium market.

Capitol Bancorp., a Boston-based banking company, last month restated its 1986 results to show a loss of $572,000, reflecting a large increase in its reserve for loan losses due to troubled loans to condominium projects. Initially, the company, with $606 million in assets, reported a $7.7 million profit for 1986.

"We feel in general there's a tremendous slowdown in the [condominium] market," said Karl Walczak, president of Capitol Bank and Trust Co. "We are going to diversify our portfolio, I can assure you that."

Even the most optimistic lenders admit that the cyclical nature of commercial real estate means that problems could emerge when the economy turns down.

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SPECIAL GUESTS: The following officials have confirmed their attendance at the conference: **Cesar Gaviria Trujillo,** Minister of Finance, Colombia; **Dr. Fernando Naranjo,** Minister of Finance, Costa Rica; **Ahmed Bannani,** Governor, Central Bank of Morocco; **Alhaji A. Ahmed,** Governor, Central Bank of Nigeria; **Yavuz Cenevi,** Undersecretary of the Treasury and Foreign Trade, Office of the Prime Minister & Minister of State, Turkey; **Jose Angel Gurria,** Director General of Public Credit, Mexico; **Ariel Buira,** Director of International Organizations and Agreements, Central Bank of Mexico; **Eduardo Lizano,** President, Central Bank of Costa Rica; **Tahar Sioud,** Vice Governor, Central Bank of Tunisia; **Hedi Zar,** Deputy Director, Central Bank of Tunisia; **Dr. Jorge Jimenez,** Head of External Debt, Central Bank of Colombia; **Shee Yul Ryoo,** Director of Exchange Control, Central Bank of Korea; **Dr. Santiago del Puerto,** Ministry of Finance, Argentina; **Galo Perez,** The Development Bank of Ecuador; **Kyung Jae Lee,** Central Bank of Korea; **Romeo Bernardo,** Ministry of Finance, Philippines; **Armando Suratos,** Head of Debt Rescheduling, Central Bank of the Philippines; **Dr. Fernando Montes,** Central Bank of Colombia. This conference is timed to coincide with the IDB interim meeting in Washington. Official delegations from the following countries have also been invited and are expected to attend: **Brazil, Chile, Egypt, Ivory Coast, Peru,** and **Venezuela.**

WORKSHOPS: The following organizations have kindly agreed to host workshops: **Bankers Trust Company, First Interstate Bank Ltd., Merrill Lynch Capital Markets, Salomon Brothers Inc,** and **Shearson Lehman Brothers.**

REGISTRATION: The registration fee of $895 includes two full days of conference and workshops, all supporting conference materials, lunch and refreshments both days at the Plaza Hotel, and full conference transcripts. Send check payable to **EUROMONEY-IDB GLOBAL DEBT CONFERENCE** along with name, title, organization, mailing address and phone number to:

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